ROYCE FOCUS TRUST INC
Form N-CSRS
September 02, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT
OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-05379

Name of Registrant: Royce Focus Trust, Inc.

Address of Registrant: 1414 Avenue of the Americas
New York, NY 10019

Name and address of agent for service: John E. Denneen, Esquire
1414 Avenue of the Americas
New York, NY 10019

Registrant's telephone number, including area code: (212) 486-1445
Date of fiscal year end: December 31
Date of reporting period: January 1, 2003 - June 30, 2003

Item 1: Reports to Shareholders

2003 Semiannual Report

THE ROYCE FUNDS

Value Investing In Small Companies
For More Than 25 Years

Royce Value Trust

Royce Micro-Cap Trust

Royce Focus Trust

www.roycefunds.com

A Few Words On Closed-End Funds

Royce & Associates, LLC manages three closed-end funds: Royce Value Trust, the first small-cap value closed-end fund offering; Royce Micro-Cap Trust, the only micro-cap closed-end fund; and Royce Focus Trust, a closed-end fund that invests in a limited number of domestic companies.

A closed-end fund is an investment company whose shares are listed on a stock exchange or are traded in the over-the-counter market. Like all investment companies, including open-end mutual funds, the assets of a closed-end fund are professionally managed in accordance with the investment objectives and policies approved by the fund's Board of Directors. A closed-end fund raises cash for investment by issuing a fixed number of shares through initial and other public offerings which may include periodic rights offerings. Proceeds from the offerings are invested in an actively managed portfolio of securities. Investors wanting to buy or sell shares of a publicly traded closed-end fund after the offerings must do so on a stock exchange or the Nasdaq market, as with any publicly traded stock. This is in contrast to open-end mutual funds, where the fund sells and redeems its shares on a continuous basis.

A Closed-End Fund Offers Several Distinct Advantages Not Available From An Open-End Fund Structure

- Since a closed-end fund does not issue redeemable securities or offer its securities on a continuous basis, it does not need to liquidate securities or hold uninvested assets to meet investor demands for cash redemptions, as an open-end fund must.
- In a closed-end fund, not having to meet investor redemption requests or invest at inopportune times is ideal for value managers who attempt to buy stocks when prices are depressed and sell securities when prices are high.
- A closed-end fund may invest more freely in less liquid portfolio securities because it is not subject to potential stockholder redemption demands. This is particularly beneficial for Royce-managed closed-end funds, which invest in small- and micro-cap securities.
- The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.
- Unlike open-end funds, our closed-end funds are able to distribute capital gains on a quarterly basis. Royce Value Trust and Royce Micro-Cap Trust have adopted a quarterly distribution policy for their common stock.

We believe that the closed-end fund structure is very suitable for the long-term investor who understands the benefits of a stable pool of capital.

Why Dividend Reinvestment Is Important

A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages 13, 15 and 17. For additional information on the Funds Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, see page 18.

SEMIANNUAL REPORT REFERENCE GUIDE

For more than 25 years, our approach has focused on evaluating a companys current worth our assessment of what we believe a knowledgeable buyer might pay to acquire the entire company, or what we think the value of the company should be in the stock market. This analysis takes into consideration a number of relevant factors, including the companys future prospects. We select these securities using a risk-averse value approach, with the expectation that their market prices should increase toward our estimate of their current worth, resulting in capital appreciation for Fund investors.

NAV AVERAGE ANNUAL TOTAL RETURNS Through June 30, 2003

FUND	2ND QUARTER 2003*	JAN-JUN 2003*	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION	INCEPTION DATE
Royce Value Trust	21.90%	13.77%	-4.01%	6.17%	6.51%	11.34%	11/26/86
Royce Micro-Cap Trust	27.45	19.32	-2.68	8.18	7.02	11.88	12/14/93
Royce Focus Trust	28.06	18.66	3.40	11.07	5.64	8.89	11/1/96**
Russell 2000	23.42	17.88	-1.64	-3.30	0.97		

Royce Value Trusts 10-year NAV average annual total return for the period ended 6/30/03 was 11.21%.

* Not annualized.

** Date Royce & Associates, LLC assumed investment management responsibility.

Charles M. Royce, *President*

We are often asked what role earnings play in our company valuations. Along with balance sheet and cash flow analysis, an examination of earnings is one of the key components in our stock selection process. In general, we think of

Letter To Our Stockholders

The Market: Reloaded

As any viewer of the film *The Matrix: Reloaded* can testify, perceptions are often mistaken and reality is not always what it appears to be. One needs to be careful not to confuse what might *feel* real with what actually *is* real. As experienced investors, we would never confuse a three-month market rally with a substantial recovery for equities, yet even we were stunned by the markets reversal of direction during the opening half of 2003. It was a period marked by extreme events, both in the stock market and the wider world. Initially, the equity market eerily reflected the mood of the country. Information about the war was instantly mirrored in the movements of the market. Prices were wildly volatile, though mostly

earnings in two ways, each of which is highly important. First, we closely examine a companys earnings history. This tells us not only if a company has been good at making money, but also gives us insight into how it has fared when earnings were poor or non-existent. This kind of analysis is especially critical when looking at cyclical businesses, which often have variant earnings patterns more or less in line with their business cycle.

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falling, in the weeks leading up to the invasion of Iraq, giving most equity securities negative first-quarter returns. Once the fighting began, equity prices stabilized until it looked for a brief moment as if Shock and Awe was not running as smoothly as planned, which sent prices plummeting once again. Shortly after victory seemed assured, stocks shared in the celebration by moving higher. With victory came the perception that the stock market had somehow righted itself after the long bear market. When se veral companies reported modest earnings growth around the time that Baghdad fell, the stage was set

for a full-scale rally. Prices continued to climb through April, and by mid-May some genuine momentum had been established. Like the omnipresent computer program that gives *The Matrix* its name, the market proved relentless and nearly impossible to stop once it was up and running again.

How does an intrepid investor make sense of the now reloaded stock market? The dramatic comeback of equities is surely welcome news, but with only a partial earnings recovery to support it, how much longer can it last? The investment mindset has shifted from the fatalistic attitude of the last few years (especially virulent from 2002s third quarter through this years first) to a confident outlook that seemed to spring up as soon as spring began. The perception of many is that the stock market is in great shape again, the bear market is over and all is well. The reality may not be quite so fabulous. While we still believe that the October 2002 market bottoms should hold, we would offer the caveat that there are many stocks whose gains have outraced their underlying value in anticipation of earnings (or similar good news) that may not arrive for some time. **On the whole, we think that the improved picture is encouraging, yet the gap between perception and reality can be quite costly in equity investing. Investors should bear in mind that market volatility remains a reality even in the midst of a rally.**

We do not want to see a return to the often uninformed euphoria that characterized the late 90s, but the frantic pace of the current rally leads us to suspect that a certain amount of this kind of optimism may have crept back into buyers minds. A new form of speculation seems to be emerging in which investors unhappy with the limited return potential for bonds are therefore eager to purchase stocks on the idea that their returns are higher. We cannot think of a poorer reason to buy equities. More to the point, if bonds do poorly which we view as likely in a rising interest rate environment it is not necessarily a positive for stocks. **Stocks have historically represented higher return potential than bonds, but the attendant risk is higher, too. We suspect that this latter point may be lost on investors reeling from the effects of years of falling interest rates and plummeting stock prices.**

The perception of many is that the stock market is in great shape again, the bear market is over and all is well. The reality may not be quite so fabulous.

These types of companies appeal to us because we are often able to buy them near the low point in the cycle, when negative sentiment is exaggerated. Negative earnings are not a deterrent as long as we think that a company has what it takes to recover and resume its growth. We generally look at normalized earnings over three years or more, which gives us a good idea of not only what a company's long-term earnings pattern has been, but its specific earnings' history as well. We might discover that a particular company did not suffer earnings difficulties to the same degree as its competitors, or that it recovered quickly from a slowdown or cessation of earnings. How a business deals with adversity is very revealing.

Letter To Our Stockholders

Small-Caps Go Wild!

While some people opted for the beach or the movie theater, many investors decided that small-cap and Technology stocks would be the hot summer destinations. The Russell 2000 finished the year-to-date period ended 6/30/03 up 17.9%, ahead of its large-cap counterpart the S&P 500, which finished the same period up 11.8%. The rally has thus far been especially kind to growth-oriented companies, as evidenced by the Nasdaq Composite's strong showing year-to-date, up 21.5%. This stands to reason in part because many of the more speculative issues had been so severely punished throughout the long bear market. In fact, Technology's relative strength was apparent both in 2002's late-year rally and in the early months of 2003. Of the three major stock indices, only the Nasdaq Composite emerged from the mostly dismal first quarter with a positive return. It was up 0.4% versus respective losses of 4.5% and 3.2% for the Russell 2000 and S&P 500.

What is less certain is how long the market's advance will hold up: Many Technology (and other) companies have shown improved earnings, but arguably not enough to support the gains that their increased share prices might

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otherwise indicate. **Simply because certain stocks lost money over an extended period of time does not mean that a proportionate recovery should be expected as the environment for equities begins to improve. This is especially the case for those securities that were grossly over-inflated prior to their descent.** While it is not unusual in the early stages of a rally for an up market to operate on the inverted logic that what went down must come up, unimpeded progress is not the markets historical norm.

Considering their own reputation for volatility (as well as frailty), small-cap stocks have shined in the current rally after weathering the bear market surprisingly well. **From the October 2002 small-cap bottom, the Russell 2000 was up 38.6%, versus respective gains of 45.7% and 27.1% for the Nasdaq Composite and S&P 500.** In this years second quarter, the Russell 2000 was up 23.4%, enjoying its best quarterly showing in nearly 16 years and its fourth best quarterly performance since its inception in 1979. The S&P 500 (+15.4%) had its best showing since the fourth quarter of 1998, while the Nasdaq Composite (+21.0%) cruised to its best mark since 2001s fourth quarter.

FINDING VALUE

Just as small-caps held their own through the bear market in defiance of conventional wisdom, small-cap value stocks have so far acquitted themselves well in the recent rally. Many market analysts hold the idea that value stocks should lag in vigorous up markets, at times becoming as lost as the tiny fish, Nemo, in the current animated film, *Finding Nemo*. While Nemos father needed help to search the ocean for his missing son, small-cap value companies did not vanish from the sea of equities, but instead swam near the front of the school, though small-cap growth took the lead. The Russell 2000 Growth Index stayed ahead of the Russell 2000 Value Index in both the second quarter and the year-to-date period ended 6/30/03. Small-cap growth was up 24.2% for the quarter and 19.3% year to date, while small-cap value was up 22.7% for the quarter and 16.5% year to date. It marked the third consecutive quarter in which growth outpaced value within small-cap. In fact, when small-cap value lost ground to growth in the more difficult first quarter, -5.1% versus -3.9%, it revealed the market strength shown by more growth-oriented companies before the current upswing was fully underway. As measured by the respective Russell 2000 Indices, growth has also had the performance edge from the small-cap market bottom on 10/9/02 through 6/30/03, returning 41.9% versus 35.5% for value.

The substantial breadth of the rally has allowed small-cap value returns to remain competitive even in the midst of recent outperformance by their growth cousins. The price of Technology and other growth stocks soared, but nearly all industries have been participating. **Small-cap values competitiveness is a pleasant sequel to its strong performance in the recent bear market. When viewed over longer-term periods, small-cap value has generally outperformed small-cap growth.** From the small-cap market peak on 3/9/00 through 6/30/03, the Russell 2000 Value Index was up 38.1% versus a decline of 55.2% for the Russell 2000 Growth Index. Russells small-cap value index also beat small-cap growth for the three-, five-, 10-, 15- and 20-year periods ended 6/30/03.

We use many different measures to determine company quality, generally beginning with strong balance sheets that show relatively little or no debt, solid long-term earnings histories and the proven ability to generate free cash flow. A companys unrecognized asset values, future prospects for growth or turnaround potential following difficulties such as an earnings disappointment can also be critical factors as we search for value as diligently as Nemos dad.

During this process, we focus primarily on operating earnings which to us represent earnings in their purest form. This helps us to avoid the often confusing accounting practices of adjusting earnings for items such as interest expenses, gains from sales of business units and other non-recurring items. As long-term investors, we are

Letter To Our Stockholders

Charlies (asin Royces) Angels

However, recent competitive returns versus growth and long-term outperformance by value would mean little if The Royce Funds themselves failed to hold up well both in the bear market and in the recent rally. Fortunately, overall performance of the Funds has been strong in the short term and reasonably solid over longer-term periods as well. It was somewhat surprising that in the midst of a strong rally, two portfolios Royce Micro-Cap and Focus Trust beat the Russell 2000 on both a net asset value (NAV) and

also interested in long-term expenses such as depreciation because they offer clues as to the sustainability of current earnings and what the effects have been on past earnings. Rather than buy stocks based on high current earnings or promising projected earnings, we want to know more about where a company has been because in our experience that's the best gauge of where a company is going. If business has been poor recently, we expect that our investigations will give us some idea of what the earnings might be under more

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market price basis by turning in strong performances year-to-date through 6/30/03. **In addition, all three closed-end Royce Funds then in existence outperformed the Russell 2000 for the three-, five-, 10-, 15-year, and since inception periods ended 6/30/03.**

While we continue to believe that a performance discussion of the small-cap indices is relevant, it is also true that the depths of the bear market and the opening months of the rally blurred much of the line that separates value and growth stocks. **Our own stance has always been that we are less interested in classifying stocks as growth or value than we are in trying to find what we think are terrific businesses trading for less than our estimate of their current worth.** We use many different measures to determine company quality, generally beginning with strong balance sheets that show relatively little or no debt, solid long-term earnings histories and the proven ability to generate free cash flow. A company's unrecognized asset values, future prospects for growth or turnaround potential following difficulties such as an earnings disappointment can also be critical factors as we search for value as diligently as Nemo's dad.

Throughout the bear market, especially during the second half of 2002 and the first quarter of 2003, we found what we thought were extraordinary values in industries as diverse as telecommunications, insurance, drugs and biotech, oil and gas, and various consumer and industrial areas. **We see a distinction between our style of value investing, in which we search high and low throughout the market for what we deem to be attractively undervalued small- and micro-cap companies, and value stocks, which are frequently defined in ways that we find unnecessarily narrow.** Many portfolio holdings in the Technology and Health sectors, for example, may not fit strict definitions of value, but in our estimation we purchased strong businesses at deep discounts in both sectors. It pleases us that so many companies in a wide variety of industries have been reaping a fruitful harvest after a long and sometimes painful planting season. Our style of investing often requires considerable patience, and 2003 has so far provided an interesting combination of quicker-than-expected turnarounds and long-awaited rewards.

2 Fast, 2 Furious?

As of this writing, none of the major market indices has regained the peaks that they reached in March 2000. Even allowing for the recent rally, the past three years have been a trying period for investors. Although small-caps fared well relative to their larger counterparts, the recent decline was the worst for the Russell 2000 since the index's inception in January 1979. When looking further back, and using the Center for Research in Securities Prices (CRSP) 6-10 index as a small-cap proxy, one finds that the recent bear market was the second worst for small-caps in the post World War II era (the worst took place between 1968 and 1974). **Because significant down periods have often been followed by furious rallies, the Russell 2000's 38.6% return from the small-cap market bottom on 10/9/02 through 6/30/03 is not at all surprising.** Since the inception of the Russell 2000, rallies from small-cap bottoms to their subsequent market peaks lasted an average of 29 months *(see the table below)*, so we do not expect to see a new small-cap peak anytime soon.

RUSSELL 2000 MARKET RALLIES: 1979-2002 TROUGH-TO-PEAK DURATION

DATE OF BOTTOM	DATE OF TOP	DURATION MONTHS
08/12/82	06/24/83	10
07/25/84	08/25/87	36
10/28/87	10/09/89	23
10/30/90	05/22/96	66
07/24/96	04/21/98	21
10/09/98	03/09/00	17
10/09/02	???	???
	Average:	**29**

favorable circumstances. If recent earnings have been strong, we still need a sense of the company's history.

The second part of our earnings analysis results in a forecast that looks ahead two or three years, sometimes longer. This is especially crucial for a company that's just been through an earnings disappointment. Combining the two helps us to determine where we think the stock price may be headed. It gives us a sense of what we deem to be the company's overall "earnings power." It's something of a hybrid of qualitative and quantitative analysis. It's certainly not a precise projection, although it takes factors into account such as return on invested capital, earnings history and the relative strength or weakness of

Letter To Our Stockholders

Looking for Small-Cap's Next Peak

It would also not surprise us to see the pace of the rally slacken substantially. We measure full market cycle periods from peak to peak. As of 6/30/03, the Russell 2000 was still off 22.6% from its previous peak on 3/9/00. In order to

an industry. Because ultimately we believe earnings and stock price are correlated, its a critical step in the process.

surpass this previous peak (thus completing the market cycle), the small-cap index would need to return more than 29% from the end of June onward. **The critical question, then, is not whether the rally will continue we believe that the market will almost certainly find a new peak but how long it will take for this new peak to be reached.** Our belief is that this could take at least three to five years. Another issue worth considering is how much volatility will be involved in the remaining climb. The market may have made a hurried conclusion that the remaining ascent will be as smooth and quick as the early stages of the current rally. Our thought is that expectations for equities may have raced ahead of reality. As believers in the ubiquity of volatility, we see corrections as an inevitable part of small-caps move to a new peak.

Small Almighty?

The last three-and-a-half months have been enjoyable for most equity investors. Those of us who invest for the long term have been gratified to see a protracted season of purchasing at ever-dwindling prices yield to a fast, dynamic rally, even if we believe that investors perceptions are in advance of reality. Our suspicion is that a more widespread earnings and economic recovery is still ahead of us, and will not begin in earnest until probably 2004 or even early 2005. The stirrings of each are with us currently, which has helped the market to recover, but we do not think that we will see sustained, robust earnings or overall economic recovery for a while. We also think that we will see regular market leadership rotation between small- and large-cap for the next several years. However, considering their head start during the bear market, we believe that small-caps should finish the decade ahead of their larger siblings.

The rally has made it difficult to find value in the market. We have not been very aggressive buyers lately because so little looks attractive to us. However, there are always companies that, for one reason or another, are being penalized disproportionately. Recently, the number of companies that fit that description has been low, but they are out there and an increase in volatility should create greater buying opportunities. This supports our contention that careful stock picking should continue to bear fruit in the years ahead.

Our thought is that expectations for equities may have raced ahead of reality. As believers in the ubiquity of volatility, we see corrections as an inevitable part of small-caps move to a new peak.

We appreciate your continued support.

Sincerely,

Charles M. Royce	W. Whitney George	Jack E. Fockler, Jr.
President	*Vice President*	*Vice President*

July 31, 2003

P.S. This reports section headings are variations on current summer movie offerings. In order of appearance, we used *The Matrix: Reloaded, Rugrats Go Wild!, Finding Nemo, Charlies Angels, 2 Fast, 2 Furious* and *Bruce Almighty*.

Small-Cap Market Cycle Performance

Since the Russell 2000s inception in 1979, value has outperformed growth in five of the six full small-cap market cycles (defined as a move of 15% from a previous peak or trough). The last small-cap market cycle (4/21/98 3/9/00) was the exception. **The current cycle represents what we believe is a return to a more historically typical performance pattern in that value has provided a significant advantage during the downturn (3/9/00 10/9/02) and through June 30, 2003.**

	PEAK-TO-PEAK 4/21/98 3/9/00	PEAK-TO-TROUGH 3/9/00 10/9/02	TROUGH-TO-CURRENT 10/9/02 6/30/03	PEAK-TO-CURRENT 3/9/00 6/30/03	PEAK-TO-CURRENT 4/21/98 6/30/03
Russell 2000	26.3%	-44.1%	38.6%	-22.6%	-2.2%
Russell 2000 Value	-12.7	2.0	35.5	38.1	20.6
Russell 2000 Growth	64.8	-68.4	41.9	-55.2	-26.1
NAV CUMULATIVE TOTAL RETURN					
Royce Value Trust	10.0	-12.2	35.4	18.9	30.8
Royce Micro-Cap Trust	10.6	-13.6	42.2	22.2	35.2
Royce Focus Trust	-10.7	-4.9	42.6	35.7	21.2

PEAK-TO-TROUGH: Not only did value outperform growth (as measured by the Russell 2000 style indices), but it provided positive performance during the downdraft. All three Royce Funds outperformed the Russell 2000 in this period.

TROUGH-TO-CURRENT: Through June 30, 2003, growth led value during the rally from the October low. All Royce Funds posted total returns of more than 35% during this period, with Royce Micro-Cap Trust and Royce Focus Trust outperforming the Russell 2000.

PEAK-TO-CURRENT: From March 9, 2000 through June 30, 2003, value maintained a sizeable lead over growth. Again, all three Royce Funds held performance advantages over the Russell 2000 (-22.6%) and all provided positive performance. When current cycle returns are combined with those of the prior full market cycle, a period which includes both the pre-bubble rally and the ensuing bear market, values positive results compare favorably against growths negative results. During this period, all three Royce Funds outperformed the Russell 2000 and Russell 2000 Value returns.

History Since Inception

The following table details the share accumulations by an initial investor in the Funds who reinvested all distributions (including fractional shares) and participated fully in primary subscriptions for each of the rights offerings. Full participation in distribution reinvestments and rights offerings can maximize the returns available to a long-term investor. This table should be read in conjunction with the Performance and Portfolio Reviews of the Funds.

HISTORY		AMOUNT INVESTED	PURCHASE PRICE*	SHARES	NAV VALUE **	MARKET VALUE **
Royce Value Trust						
11/26/86	Initial Purchase	$ 10,000	$ 10.000	1,000	$ 9,280	$ 10,000
10/15/87	Distribution $0.30		7.000	42		
12/31/87	Distribution $0.22		7.125	32	8,578	7,250
12/27/88	Distribution $0.51		8.625	63	10,529	9,238
9/22/89	Rights Offering	405	9.000	45		
12/29/89	Distribution $0.52		9.125	67	12,942	11,866
9/24/90	Rights Offering	457	7.375	62		
12/31/90	Distribution $0.32		8.000	52	11,713	11,074
9/23/91	Rights Offering	638	9.375	68		
12/31/91	Distribution $0.61		10.625	82	17,919	15,697
9/25/92	Rights Offering	825	11.000	75		
12/31/92	Distribution $0.90		12.500	114	21,999	20,874
9/27/93	Rights Offering	1,469	13.000	113		
12/31/93	Distribution $1.15		13.000	160	26,603	25,428
10/28/94	Rights Offering	1,103	11.250	98		
12/19/94	Distribution $1.05		11.375	191	27,939	24,905
11/3/95	Rights Offering	1,425	12.500	114		
12/7/95	Distribution $1.29		12.125	253	35,676	31,243
12/6/96	Distribution $1.15		12.250	247	41,213	36,335
1997	Annual distribution total $1.21		15.374	230	52,556	46,814
1998	Annual distribution total $1.54		14.311	347	54,313	47,506
1999	Annual distribution total $1.37		12.616	391	60,653	50,239
2000						